Set : A

Unique paper Code : 52417505

Name of Paper : Fundamentals of Financial Management

Semester : V

Name of Course : B. Com (CBCS)

Duration: 3 Hours **Maximum Marks: 75**

Instructions for Candidates

1. It is an open book examination.
2. Attempt any **four** Questions. **All** questions carry equal marks.
3. Though the duration of examination is three hours, yet one additional hour will be given for downloading the question paper, scanning the answer sheet, and uploading the answer sheet to the portal.
4. Answers may be written either in English or Hindi, but the same medium should be used throughout the paper.
5. Use of simple calculator is allowed.

1. Explain how scope of finance function has changed over time and what role financial manager plays in a modern firm.

2. Why Payback period is considered a method of liquidity rather than profitability? Machine A costs Rs 2,00,000 payable immediately. Machine B costs Rs 2,40,000 half payable immediately and half payable in one years' time. The cash inflows expected are as follow:

Year end	Machine A	Machine B
1	80,000	1,60,000
2	1,20,000	60,000
3	80,000	1,20,000
4	60,000	1,60,000
5	60,000	-

Rank the machine according to (i) NPV at 10%, (ii) Payback period and (iii) Accounting rate of return, assuming depreciation is charged on straight line method basis.

3. Describe the importance of measuring operating leverage and financial leverage. Consider the given information of ABC Limited

Rs

Sales (variable cost 30% of sales)	2,00,000
EBIT	40,000
EBT	35,000
Tax rate	40%

Find out

i) By what percentage will the Earning per share increases if EBIT increases by 6%?

ii) By what percentage will the EBIT increases if sales increases by 10%?

iii) By what percentage will the Earning per share increases if Sales increases by 8%?

Also verify the results

4. What is 'informational content' of dividend payment? explain how it affects the share value.
   As per MM approach the payment of dividend does not affect the value of the firm. Use the data below to prove this statement.

Number of outstanding shares	25000
Earnings per share	10
P/E ratio	10
Expected dividend per share	5
New Investments	440000

5. ABC ltd has the following book value capital structure

	Rs in lakhs
Equity capital (in shares of Rs 10 each fully paid up at par)	20
Retained earnings	10
12% preference capital (in shares Rs 100 each fully paid up at par)	5
10% debentures (of Rs 100 each)	10
11% term loans	5

The next expected dividend on shares is Rs 4 per share and the dividend per share is expected to grow at the rate of 8%. The market price per share is Rs 40. Preference stock redeemable after 10 years is currently selling at Rs 75 per share. Debentures redeemable after 6 years are selling at Rs 80 per debenture. Income tax rate for the company is 40%. Compute the weighted average cost of capital using book value weights and market value weights.

6. XYZ Limited provides the following particulars relating to its working

i) Cost/ profit per unit (Rs):

Raw material	168
Direct labour cost	72
Overheads (including depreciation @ Rs 10 per unit)	82
Selling price	400

ii) Average amount of backup stock:

Raw material	one month
Work in progress (50% complete)	one and half month
Finished goods	one month

iii)	Credit allowed by suppliers	one month
iv)	Credit allowed to customers	two months
v)	Average time lag in the payment of:	
	wages	half month
	overhead expenses	one and half month
vi)	Required cash in hand and at Bank	Rs 3,00,000
vii)	25% of the output is sold for cash	

For an expected sale of 50,000 units per annum, work out the working capital requirements assuming that production is carried on evenly throughout the year and wages and overheads accrue similarly.